

**13 September 2024**

## **LDP campaign shows party's major economic policy divisions**

### **Key takeaways**

- In their initial proposals and their platforms, the Liberal Democratic Party's (LDP) nine candidates have shown that there are major divisions within the party on how Japan's economy should be governed.
- The three schools – the neoliberal reformers, the Kishida-ists, and the Abe-ists – have different priorities for growth and macroeconomic policy, suggesting that the eventual winner will have to manage these competing views.

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With the formal start of the Liberal Democratic Party (LDP) leadership [election](#) on Thursday, 12 September, the party's nine candidates have been working particularly hard to [differentiate](#) themselves on key policy issues. These policy differences will not necessarily be what decides the race, as both LDP lawmakers and rank-and-file members will be weighing which candidates have the popularity, leadership qualities, and relationships within the parliamentary party to extricate the LDP from the political crisis that followed revelations of widespread failures to account for political funds.

However, even if policy proposals will not necessarily be the deciding factor in how party members vote, these policy differences not only offer some insight into how the eventual winner will govern, but also reveal the extent to which there are meaningful differences within the LDP on how to govern Japan that could influence the ability of the next prime minister to build a consensus around a policy agenda in the coming years.

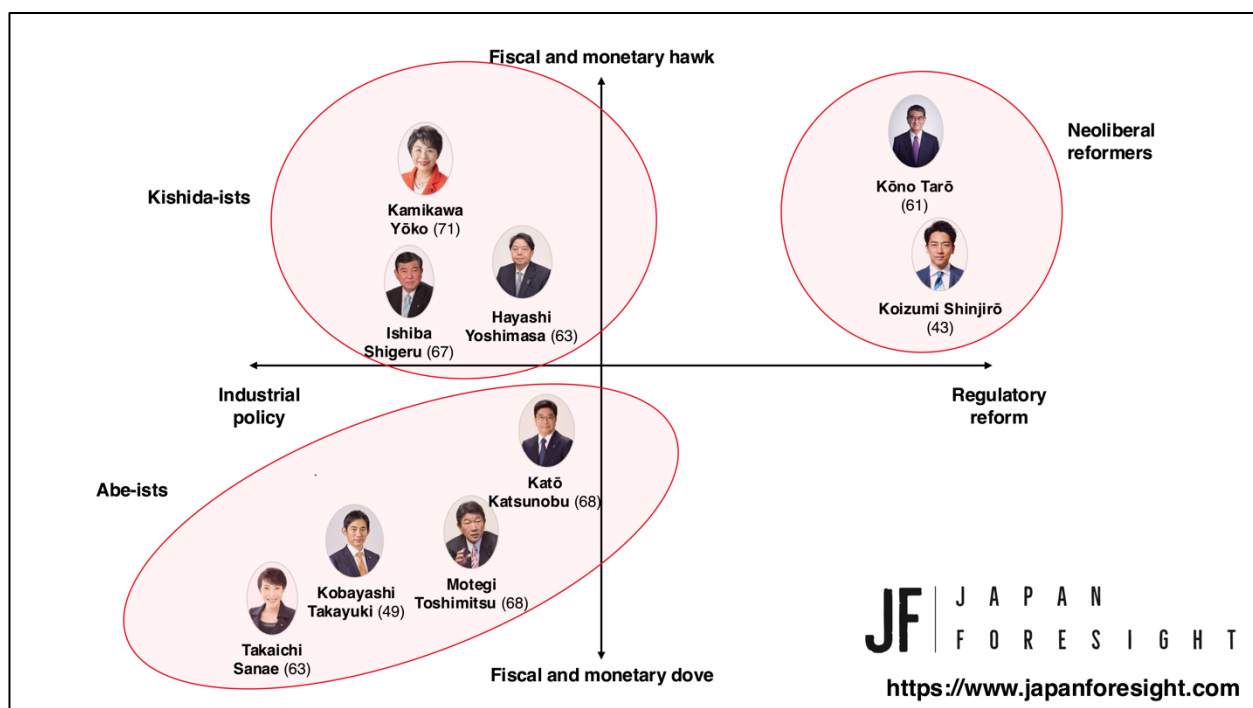


While the most prominent debate has been over political reform and whether to introduce additional changes to campaign finance rules beyond the legislation passed in June, in the early stages of the campaign, in press conferences launching their campaigns as well as in joint campaign events and debates on 12 and 13 September, the candidates have demonstrated that there are significant differences in how they are thinking about macroeconomic policy – including how the government should approach the Bank of Japan’s (BOJ) and its monetary policy normalization and whether the government should prioritize fiscal stimulus or fiscal discipline – and microeconomic policy, particularly whether the government should rely more on state-led industrial and incomes policies or regulatory reform to boost economic growth.

When looking at what the candidates have said in public appearances and in their campaign manifestos, it is possible to identify three broad clusters in how the LDP candidates are thinking about governing Japan’s economy.

First, there are the **neoliberal reformers**, including **Koizumi Shinjirō** and **Kōno Tarō**. Koizumi, in particular, almost single handedly put labor market reform on the agenda of the leadership campaign when, in his 6 September press conference launching his bid, he proposed “regulatory reform without sanctuary,” harkening back to his father Koizumi Junichirō’s slogan of “structural reform without sanctuary.” Koizumi pledged that he would pursue three major reforms within his first year in the premiership, including regulatory reforms that would make deregulate transportation to allow ride sharing, encourage start-up growth through tax changes, and, most controversially, labor law changes to allow companies to lay off workers (although he has softened this proposal and said that he would require companies preparing layoffs to invest in reskilling and help workers move to “growth sectors”). Kōno is, if anything, even more committed to regulatory reform than Koizumi. In his speech at the LDP’s candidates’ forum on 12 September, he explicitly challenged the idea that the government guiding the industry to

a next-generation growth model. “Can the government really be the judge of the next [advanced] industry?” he asked. “Industry is created through the efforts of companies. What we must do now is deliver regulatory reforms that unleash the vitality of the private sector, even if it leaves us covered with bruises.” His platform includes his own labor market reforms and proposals for regulatory reforms in the tech, transportation, energy, and agricultural sectors. In prioritizing regulatory reform, both Koizumi and Kōno have also stressed the importance of fiscal discipline and monetary policy normalization. Kōno, for example, has warned that talk of a primary fiscal surplus is inadequate in light of rising interest rates, and included a principle in his manifesto, “reform for normal times, fiscal stimulus for emergencies.” Koizumi has been less strident than Kōno, proposing, for example, to introduce “time-limited” fiscal stimulus after taking office to provide relief for households impacted by inflation and yen weakness. But he has, for example, decisively rejected Motegi Toshimitsu’s proposal (see below) to scrap Prime Minister Kishida Fumio’s plan to raise taxes to fund higher defense spending and other priorities, and said it was important to respect the independence of the BOJ, tacitly accepting the BOJ’s course of action.



Another cluster of candidates are the **Kishida-ists**, including **Hayashi Yoshimasa**, **Kamikawa Yōko**, and **Ishiba Shigeru**. It is not surprising that Hayashi and Kamikawa – both members of the prime minister’s now-defunct faction and leading officials in his government – are campaigning on policy continuity. Ishiba has not been in the Kishida government but has supported the prime minister, and his platform includes a number of similarities with Hayashi and Kamikawa. The policy mix includes a continuing emphasis on intervention in wage-setting to boost incomes and overcome deflation definitively; working-style reform that reduces inequality between regular and non-

regular workers but is gentler than the neoliberal reformers; continuing government support for strategic sectors through Kishida's green transformation (GX) and digital transformation (DX) agendas; and a focus on redistribution to poorer Japanese as well as to poorer regions. Hayashi's platform, for example, talks of "security." This cluster is also interested in using government spending to support families as part of a policy of countering Japan's demographic crisis. On macroeconomic policy, meanwhile, this cluster wants gradual deficit reduction – both Hayashi and Kamikawa have proposed plans to shore up government finances – and have endorsed the BOJ's course of action and its independence. Ishiba, for his part, said in his manifesto that he respects the BOJ's independence but wants there to be effective communication between the government and BOJ and wants to ensure that monetary policy normalization does not harm economic growth. Ishiba also endorsed the approach to fiscal consolidation [outlined](#) in the 2024 Basic Policy on Economic and Fiscal Management and Reform, which stated that "the economy is the foundation of public finances, and there is absolutely no contradiction between taking the necessary policy measures and working towards the goal of fiscal consolidation."

The third cluster are the **Abe-ists**, including **Takaichi Sanae**, **Kobayashi Takayuki**, **Katō Katsunobu**, and **Motegi Toshimitsu**. These candidates are consciously campaigning as the political heirs of the late Abe Shinzō. Takaichi is the most forthright in this regard. Her platform emphasizes the importance of "strengthening Japan's comprehensive national power," which includes deploying state power to reduce risks – including ensuring food and energy security, promoting supply chain resilience, and bolstering cyber security – and using "strategic fiscal stimulus" to support growth in advanced industrial sectors. In a YouTube video posted on 13 September, she also came out explicitly against the BOJ's monetary policy normalization, arguing that it is too soon to raise interest rates and that doing so will make it harder for businesses to invest and will dampen consumer confidence. She has pushed back against Koizumi's labor market reform proposals as well. She is opposed to raising taxes to pay for higher defense spending – which she naturally thinks is urgently needed – and has instead proposed using construction bonds or even establishing a new category of "defense bonds" to finance larger defense budgets. Takaichi's supporters include LDP upper house member Nishida Shōji, an advocate of modern monetary theory, suggesting that a Takaichi government would not prioritize deficit reduction. A Takaichi government would be more likely to pressure the Ueda Kazuo-led BOJ publicly and privately on monetary policy, perhaps prompting Ueda to resign like did Shirakawa Masaaki early in Abe's second administration.

Kobayashi's platform is similar in important respects. Central to his campaign is what he calls his "National Strategy 2050," through which the state would invest in strategic sectors, promote higher wages, and support start-up formation. Despite being a former finance ministry official, his manifesto explicitly says, "The economy takes precedence over public finances," arguing that public finances can be managed through a stronger economy that boosts tax revenues. Katō, similarly, has proposed what he calls "an

income-doubling plan,” harkening back to Japan’s high-growth period, proposing investment in strategic sectors and intervention in wage-setting, as well as new social security benefits for families with children. Although he is a former finance ministry official too, he has said little about fiscal consolidation and has also suggested that the BOJ should move slowly to normalize monetary policy.

While in the past Motegi has at times discussed regulatory reform as a top priority, in this campaign he is running as an Abe-ist. His platform might as well be called “neo-Abenomics.” His campaign slogan is “realizing economic revitalization,” and he has pledged to expand investments in strategic sectors, particularly in semiconductors and AI, promote regional revitalization, and scrap Kishida’s proposed tax increases for defense spending and childcare, arguing that his reforms will boost growth enough to generate tax revenues that will cover additional spending. Although Motegi called for interest rate hikes in July, he may have shifted on monetary policy, as he has indicated he wants to be able to declare an end to deflation within six months and has stressed the need for closer communication between the government and BOJ.

The differences between these competing schools of thought may be sharpened as the campaign proceeds, as candidates are questioned by other candidates and the media to clarify some of their more ambiguous positions. But the boundaries between these “schools” may be fuzzy. All candidates have proposed regulatory reforms in some form, for example. Nevertheless, even the proposals and documents that have been issued thus far point to meaningful and even significant differences within the LDP on major policy questions, differences that will have to be managed by the eventual winner.

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